

Universität Siegen

Fachbereich 5 – Wirtschaftswissenschaften Univ.-Prof. Dr. Jan Franke-Viebach

Klausur „International Financial Markets“
Sommersemester 2010
(2. Prüfungstermin)

Bearbeitungszeit: 60 Minuten

Zur Beachtung:

1. Die Klausur umfasst 10 Seiten (einschl. dieses Deckblatts). Bitte prüfen Sie die **Vollständigkeit** der Klausur.
2. Benutzen Sie für Ihre Ausführungen die vorgesehenen Lösungsfelder. Reichen diese nicht aus, benutzen Sie die Rückseiten der Blätter. Mit **Bleistift** angefertigte Lösungen werden nicht bewertet.
3. Hilfsmittel: nichtprogrammierbarer Taschenrechner
4. **ACHTUNG:** Die Variablen-Namen haben die gleiche Bedeutung wie in der Vorlesung. Sofern Sie ebenfalls für die Variablen die Symbole aus der Vorlesung verwenden, brauchen Sie sie nicht zu definieren.

Question	1	2	3	4	5	Sum	Mark
Points achievable	15	6	15	14	10	60	
Points achieved							

Problem 1: Arbitrage

You specialize in cross-rate arbitrage. You notice the following quotes:

Euro / US dollar: 0.8625 € / \$

Yen / US dollar: 110.40 Y / \$

Yen / euro: 124.76 Y / €

- a. Ignoring transaction costs, check by an appropriate calculation and explain whether there is an arbitrage opportunity based on these quotes.

[6 points]

b. If there is an arbitrage opportunity, what steps must you take to make an arbitrage profit? [4 points]

c. How much would your profit be if you had \$ 1,000,000 available for this purpose? Please show your calculations. [5 points]

Problem 2: Purpose of the financial system

a) What is the ultimate object of the financial system? [2 Points]

b) What are the intermediate goals in achieving this ultimate object? [4 Points]

Problem 3: Regulation

Name three specific measures governments implement to secure the stability of their financial system. Briefly describe the aim of each instrument.

[15 Points]


Problem 4: Financial Accounts

a) A financial deficit is the outcome of mismatches of economic transactions in the goods market. Please define a financial deficit by one of these mismatches.
[3 points]

b) The following questions refer to the tables on pp 7 and 9. The tables show data for the euro area for the 3rd quarter 2009.

b₁ By which position can we identify on p. 7 whether a sector was a deficit unit or a surplus unit?
[2 Points]


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3.1 Integrated economic and financial accounts by institutional sector (EUR billions)

Uses	Euro area	Households	Non-financial corporations	Financial corporations	General government	Rest of the world
2009 Q3						
External account						
Exports of goods and services						442.2
Trade balance ¹⁾						-21.9
Generation of income account						
Gross value added (basic prices)						
Taxes less subsidies on products						
Gross domestic product (market prices)						
Compensation of employees	1,067.9	110.4	675.4	52.6	229.5	
Other taxes less subsidies on production	26.2	4.8	14.2	3.5	3.8	
Consumption of fixed capital	354.2	98.2	198.4	11.5	46.1	
Net operating surplus and mixed income ¹⁾	565.1	286.6	246.3	33.8	-1.7	
Allocation of primary income account						
Net operating surplus and mixed income						4.7
Compensation of employees						
Taxes less subsidies on production						
Property income	625.3	33.7	222.3	308.2	61.2	91.2
Interest	382.6	31.4	60.6	229.4	61.1	54.0
Other property income	242.7	2.3	161.6	78.7	0.0	37.2
Net national income ¹⁾	1,874.5	1,533.9	109.7	32.5	198.5	
Secondary distribution of income account						
Net national income						
Current taxes on income, wealth, etc.	238.2	200.9	32.3	4.8	0.3	1.2
Social contributions	410.1	410.1				1.1
Social benefits other than social transfers in kind	446.4	1.4	15.8	31.1	398.0	0.8
Other current transfers	178.2	67.8	24.3	42.8	43.3	7.2
Net non-life insurance premiums	41.4	30.7	9.1	0.9	0.7	1.0
Non-life insurance claims	41.2			41.2		0.5
Other	95.6	37.1	15.2	0.7	42.6	5.6
Net disposable income ¹⁾	1,850.5	1,386.2	62.6	42.2	359.4	
Use of income account						
Net disposable income						
Final consumption expenditure	1,774.9	1,303.9			471.0	
Individual consumption expenditure	1,589.6	1,303.9			285.7	
Collective consumption expenditure	185.3				185.3	
Adjustment for the change in the net equity of households in pension fund reserves	15.0	0.1	0.6	14.3	0.0	0.0
Net saving/current external account ¹⁾	75.6	97.2	62.1	27.9	-111.6	4.2
Capital account						
Net saving/current external account						
Gross capital formation	434.1	139.9	225.4	11.4	57.3	
Gross fixed capital formation	443.2	138.2	236.3	11.3	57.4	
Changes in inventories and acquisitions less disposals of valuables	-9.1	1.7	-10.9	0.1	0.0	
Consumption of fixed capital						
Acquisitions less disposals of non-produced non-financial assets	-0.2	-2.3	0.8	0.1	1.1	0.2
Capital transfers	34.1	7.8	1.0	1.9	23.4	3.5
Capital taxes	6.7	5.5	0.2	1.0		0.0
Other capital transfers	27.4	2.4	0.8	0.9	23.4	3.5
Net lending (+)/net borrowing (-) (from capital account) ¹⁾	-2.6	59.8	50.5	27.1	-139.9	2.6
Statistical discrepancy	0.0	-0.1	0.1	0.0	0.0	0.0

Sources: ECB and Eurostat.
1) For details of the calculation of the balancing items, see the Technical Notes.



b₂ By which position can we identify on p. 9 whether a sector was a deficit unit or a surplus unit? [2 Points]

b₃ In which amount did the “General government” raise funds? [2 points]

b₄ What was the most important form of new liabilities of the “General government”? In what amount? [3 points]

b₅ Besides incurring new liabilities, there are other reasons why the sector’s total debt position may have changed. Please give one such reason. [2 points]

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EURO AREA
STATISTICSEuro area
accounts3.1 Integrated economic and financial accounts by institutional sector (cont'd)
(EUR billions)

Liabilities	Euro area	Households	Non-financial corporations	MFI	Other financial intermediaries	Insurance corporations and pension funds	General government	Rest of the world
2009 Q3								
Opening balance sheet, liabilities								
Total liabilities		6,407.6	23,202.6	31,800.3	11,966.9	6,295.3	7,955.9	13,330.0
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			25.4	22,696.3	30.1	0.0	253.7	2,531.8
Short-term debt securities			293.2	727.0	75.8	9.7	1,010.9	246.3
Long-term debt securities			512.3	4,523.0	2,343.6	30.5	4,960.4	2,771.4
Loans		5,735.3	8,375.4		2,722.4	267.5	1,307.0	2,968.9
<i>of which: Long-term</i>		5,363.9	5,894.4		1,838.5	84.4	1,094.2	
Shares and other equity			10,694.2	2,784.5	6,572.5	423.6	4.5	4,336.3
Quoted shares			2,802.8	450.0	113.0	141.4	0.0	
Unquoted shares and other equity		6.3	7,891.4	1,065.6	2,338.5	281.3	4.5	
Mutual fund shares				1,268.9	4,121.0			
Insurance technical reserves		33.8	331.8	65.1	0.8	5,353.9	0.4	
Other accounts payable and financial derivatives			632.2	2,970.3	1,004.3	221.7	210.2	419.0
Net financial worth ¹⁾	-1,497.3	10,753.6	-8,542.1	823.6	210.7	-155.0	-4,588.1	
Financial account, transactions in liabilities								
Total transactions in liabilities		31.2	-22.2	-645.2	166.5	58.1	84.7	6.7
Monetary gold and SDRs								
Currency and deposits			0.0	-660.7	-3.0	0.0	-5.2	-56.4
Short-term debt securities			8.1	-42.8	-1.9	-1.3	41.7	5.1
Long-term debt securities			12.3	40.2	20.2	2.2	67.9	1.3
Loans		24.3	-72.9		1.4	-7.7	6.4	-17.2
<i>of which: Long-term</i>		32.4	-10.1		-5.0	0.2	6.5	
Shares and other equity			47.7	-6.6	171.7	0.2	0.8	76.7
Quoted shares			9.7	5.3	1.4	0.1	0.0	
Unquoted shares and other equity		0.0	38.0	-3.0	-30.9	0.1	0.8	
Mutual fund shares				-8.9	201.3			
Insurance technical reserves		0.1	0.7	1.8	0.0	65.2	0.0	
Other accounts payable and financial derivatives		6.8	-18.1	23.0	-21.9	-0.4	-26.9	-2.8
Changes in net financial worth due to transactions ¹⁾	-2.6	59.7	50.6	45.1	-19.1	1.0	-139.9	2.6
Other changes account, liabilities								
Total other changes in liabilities		-3.3	1,150.2	170.2	312.9	144.5	67.0	205.1
Monetary gold and SDRs								
Currency and deposits			0.0	-109.3	0.0	0.0	0.0	-27.5
Short-term debt securities			-1.9	-4.0	-1.1	0.0	-1.0	7.0
Long-term debt securities			10.5	18.8	-0.2	-0.1	75.6	45.0
Loans		-2.9	6.0		-26.6	-0.2	-0.2	-30.1
<i>of which: Long-term</i>		-1.9	2.9		6.3	0.0	-0.2	
Shares and other equity			1,136.3	230.5	324.7	53.7	0.0	222.1
Quoted shares			456.6	140.2	36.8	34.6	0.0	
Unquoted shares and other equity		0.1	679.7	97.6	55.2	19.1	0.0	
Mutual fund shares				-7.3	232.8			
Insurance technical reserves		0.0	0.0	0.0	0.0	93.3	0.0	
Other accounts payable and financial derivatives		-0.4	-0.8	34.3	16.1	-2.2	-7.4	-11.3
Other changes in net financial worth ¹⁾	-28.1	461.2	-491.2	-40.3	51.0	1.1	-9.8	80.0
Closing balance sheet, liabilities								
Total liabilities		6,435.5	24,330.6	31,325.3	12,446.4	6,498.0	8,107.6	13,541.8
Monetary gold and SDRs								
Currency and deposits			25.4	21,926.3	27.1	0.0	248.5	2,447.9
Short-term debt securities			299.4	680.2	72.8	8.4	1,051.6	258.4
Long-term debt securities			535.2	4,582.0	2,363.7	32.6	5,103.9	2,817.7
Loans		5,756.6	8,308.5		2,697.2	259.6	1,313.2	2,921.5
<i>of which: Long-term</i>		5,394.4	5,887.2		1,839.9	84.5	1,100.5	
Shares and other equity			11,878.2	3,008.4	7,068.9	477.5	5.3	4,635.2
Quoted shares			3,269.2	595.5	151.1	176.1	0.0	
Unquoted shares and other equity		6.4	8,609.1	1,160.3	2,362.8	300.5	5.3	
Mutual fund shares				1,252.7	4,555.0			
Insurance technical reserves		33.9	332.5	66.9	0.8	5,512.4	0.4	
Other accounts payable and financial derivatives		638.6	2,951.4	1,061.6	215.9	207.5	384.7	461.2
Net financial worth ¹⁾	-1,528.0	11,274.5	-8,982.7	828.4	242.6	-153.0	-4,737.8	

Source: ECB.

Problem 5: Forex Market

We look at the market on which the British Pound (GBP) is exchanged against the Japanese Yen (JPY).

- a) The supply of Japanese Yen can arise from transactions recorded in the British Balance of Payments. Please name these transactions. [5 Points]

- b) We look at an American investor holding Japanese bonds. He wants to sell these bonds. Why may this lead to the supply of JPY against GBP?
[5 Points]